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SUBJECT: INCJ President Meets Ambassador to Discuss Innovation and  
New Business

11. (SBU) SUMMARY: Ambassador Roos and Innovation Network Corporation of Japan (INCJ) President and CEO Kimikazu Nomi discussed ways to improve the Japanese environment for innovation and entrepreneurship on December 14. Nomi described impediments within Japan's entrepreneurial ecosystem, and outlined the key goals the INCJ will pursue as Japan seeks to gain greater economic benefit from its cutting-edge technological innovation. The Ambassador noted USG concerns about transparency regarding INCJ support for Toshiba's unsuccessful bid to acquire the transmission and distribution division (T&D) of the French energy concern Areva SA. Overall, both agreed there is scope for further bilateral discussion and possible cooperation between the INCJ and private-sector institutions, particularly the venture capital community in the United States. End Summary.

#### IMPEDIMENTS TO ENTREPRENEURSHIP IN JAPAN

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12. (U) Innovation Network Corporation of Japan (INCJ) President Kimikazu Nomi outlined several features of Japan's economy and culture that discourage greater utilization of Japan's innovative capital and a more dynamic venture business climate in a December 14 call on the Ambassador. A focus on new business creation should help generate new jobs and economic growth, as well as promote better utilization of Japan's intellectual assets, he said.

13. (U) One obstacle to entrepreneurial behavior is the mindset that only technology matters, reflecting a Japanese bias toward manufacturing. Another unhelpful attitude is to discount things "not-invented-here," which manifests itself in proprietary approaches to technology and business practices. Nomi characterized the Japanese economy as having weak network functions such as interchange between academic institutions and industry, and even cross-industry fertilization. He also cited a lack of risk capital and the difficulty new ventures in Japan have finding financing from either banks or capital markets.

14. (U) Nomi acknowledged a significant volume of Japan's IPR goes unutilized, with rights holders neither exploiting it themselves nor being willing to let others do so. Japanese industry, as well as the financial sector, often do not value non-tangible assets or price risk accurately. The lack of mobility of skilled labor, management, and researchers in Japan is another impediment to cross-fertilization of ideas. Additionally, more work needs to be done to develop a full range of market exits for venture businesses, because both M&A (mergers and acquisitions) activity is limited and

there have been few IPOs (initial public offerings).

#### INCJ GETTING STARTED

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15. (U) In light of these factors, INCJ aims to encourage the development of venture capital infrastructure and, eventually, an entrepreneurial ecosystem in Japan. INCJ was established in July 2009 and, as of November, has built a staff of nearly 50. They represent a diverse cross-section of skills and experience drawn from technical fields, finance, accounting, law, and management, and were selected from among the best of over 1,000 candidates. INCJ's funding comes from both government sources and private-sector investors and stands initially at about USD 10 billion.

16. (U) Key INCJ functions Nomi described include: providing long-term risk capital to supplement private capital; facilitating flows of information; promoting open innovation; and encouraging more commercialization of indigenous IPR. He acknowledged, though, that for a functioning entrepreneurial ecosystem to emerge, it will require building capacity among financial firms, law firms, accounting firms, patent lawyers, technology licensing offices, incubators, and mentors and angel investors. Additionally, it will require the support of both government officials and industry, who eventually should come to see venture business activity in their interest as well. One of the basic reasons for INCJ's inception, Nomi explained, was to create momentum for the sweeping changes necessary in a manner visible to all.

17. (U) Asked what criteria INCJ will use to prioritize among prospective investments, Nomi replied it will consider: potential

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to address social needs, potential for growth, innovativeness, and profitability. He did not explain more specifically how INCJ will value new investments, but said he expected it would focus initially on sectors such as environment/clean technology, energy, the Internet economy, and life sciences/health care.

#### POSSIBLE COOPERATION

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18. (SBU) The Ambassador expressed support for INCJ's goals, but noted they are ambitious and will take time. He suggested Japan could achieve some of these goals in the near term more quickly by joining with foreign partners or talent to access needed skills not available domestically. The Ambassador cited models such as Israel, which successfully and quickly launched its own venture market by finding U.S. partners to match needs that could not be met at home. This might involve new Japanese ventures also setting up a parent company in the United States to better engage with the U.S. venture capital community, but it could offer important benefits. Nomi acknowledged, in seeking prospective investment partners abroad, they would have to be flexible in the deals they would accept. Nomi and the Ambassador agreed a potentially fruitful area for cooperation might be to work to clear impediments to such cross-border arrangements.

#### INCJ SUPPORT FOR TOSHIBA

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19. (SBU) Regarding INCJ's support for Toshiba's bid to acquire Areva T&D, the Ambassador conveyed USG concerns about transparency of operations at INCJ, highlighting that INCJ's support put General Electric, another investor in INCJ, at a disadvantage. Asked about INCJ's thinking behind the decision, Nomi acknowledged the concern and responded the decision on Areva T&D had been the INCJ's own. He argued the goal had been to acquire technology that would have been important to Japanese industry more broadly, and that INCJ had intended to strengthen the ability of Japanese industry to compete internationally in sectors outside of manufacturing by making it available beyond Toshiba, because one of INCJ's goals is the promotion of open innovation.

ROOS